

April 7, 1998



Honorable John M. McHugh
Chairman
Subcommittee on the Postal Service
Committee on Government Reform and Oversight
U.S. House of Representatives
2441 Rayburn House Office Building
Washington, D. C. 20515

Dear Mr. Chairman:

I am pleased to offer the views of R.R. Donnelley & Sons Company in response to your letter of February 27 inviting comments on the proposed revisions to H.R. 22, the Postal Reform Act of 1997. As both the leader of the printing industry and the largest customer of the U.S. Postal Service (USPS) on a consolidated basis, our company has a significant stake in assuring the continued competitiveness of both the postal system and mailed print and we greatly appreciate your leadership on this important issue.

Before outlining our specific views on the proposed revisions to H.R. 22, we wish to also associate ourselves with the comments made by the multi-association group that includes the Advertising Mail Marketing Association, the Direct Marketing Association, the Magazine Publishers of America, the Mail Order Association of America! National Postal Policy Council, and the Parcel Shippers Association. Their recommendations cover a broader range of topics in the revision than ours do and provide, overall, a reasonable proposal that many in Congress and industry could support.

Introduction

It is reasonably-priced, universal service that drives our business interest in postal reform. We share our customers' need for a distribution channel that will service every residential and commercial address every day with predictability and consistency. We foresee no change to this requirement and, therefore, are concerned that the changes needed to assure the postal system's long-term viability remain unrealized.

In discussing postal reform, it is important to first set forth a general business philosophy in order to provide a context for our views. It can be summarized as this: R.R. Donnelley & Sons Company has a deep belief that the passion of effective competition which governs and maximizes the operations of the private sector can and should be employed to allow the U.S. Postal Service to meet the future while fully serving its historical mandate to provide reasonably-priced universal service to all Americans.

Among reforms chief goals should be the updating of the existing statutory framework which governs the USPS. The current statutory blueprint was enacted nearly three decades ago – prior to the first global oil embargo, prior to the arrival of fierce competition for U.S. businesses from off-shore companies, and prior to the reengineering that has so dramatically changed the operating approach of many companies in both the manufacturing and service sectors of our economy.

~~Perhaps most notable within the context of postal reform, we note that the Postal Reorganization Act was enacted well before to the explosion of computer technology and the internet. In 1970, it took several large rooms to house the computing power that now fits into a laptop computer. Cellular communication, once reserved to a select few, is now commonplace. It is unrealistic to expect that any organization governed by a model substantially unchanged since the early 1970s can be competitive in the 21st century.~~

Broad Policy Options

Indeed, most postal industry observers agree that electronic commerce (and, specifically, electronic bill payment) is a growing threat to the long-term viability of the overall postal system. Many, including R.R. Donnelley & Sons Company, have concluded that declining first class mail volume (e.g., correspondence and transactions) requires replacement with increased advertising mail volume (e.g., Standard A, periodicals and first class mail advertising) if the postal system is to remain competitive in the long-run and continue to meet the universal service mandate.

The public dialogue in recent years within industry and policy circles on postal reform has provided an exhaustive review of many of the key issues involved in preparing the USPS to meet the challenges of the 21st century. We do observe, however, that there is at least some room remaining for further dialogue on how to best achieve the specific goal of replacing declining first class correspondence and transactional volume with increased advertising mail volume. Consequently, the balance of our comments focus on this specific goal and how we see it best addressed by Congress.

Indeed, though our comments address only a single issue in postal reform, we are nonetheless informed of the serious and legitimate debate between the Postal Service and its competitors on a variety of other issues brought forward by the H.R. 22 revision. We look forward to working with you in addressing these issues as we evaluate the comments submitted to the Subcommittee and as they may arise within the legislative process going forward. In the interim, however, we will continue to focus on the need to preserve the viability of the postal system and the universal service mandate through enhancing the competitiveness of advertising mailed print.

A Long-Term View

R.R. Donnelley & Sons Company believes the Congress is well positioned to take the long-term view that economic globalization has eliminated the historical fiction of “non-competitive” products -- whether in the postal industry or anywhere else. Virtually anything that is characterized as “non-competitive” today will ultimately face a “competitive” future. The experience of numerous

industries over the past two decades underscores this point. Whether traditional notions of competition still apply in the short-run may be debatable for some. That globalization and competition affect every service, product and industry in the long-run is not.

We therefore believe that the historic distinction between "competitive" and "non-competitive" products must be updated to accurately accommodate the rapid change that is attacking both ~~postal markets and the mailing community. The assumption, for example, that the postal monopoly~~ operates to indefinitely insulate Standard A and periodical mail from competition is unrealistic in an age of the world wide web, cable television, e-mail, facsimile transmission and demographically-targeted radio.

In looking at specific ways to strengthen the postal system through both growing advertising mailed print and reducing USPS overall operating costs, we actively support a specific tool that was included in H.R. 22 in its original form: negotiated service agreements (NSAs).

Negotiated Service Agreements (NSAs)

For purposes of this discussion, R.R. Donnelley & Sons Company defines negotiated service agreements as nondiscriminatory agreements where mailers agree to perform extraordinary work that is above-and-beyond the usual postal requirements as part of a mutual exchange of enhanced value. Done correctly, NSAs enhance the benefits of worksharing and help reduce overall postal system operating costs. In the long-term, NSAs can operate in a way that help moderate overall postage rates and strengthen the ability of the USPS to meet its universal service mandate.

From a precedent standpoint, of course, NSAs are hardly a new concept. The U.S. Postal Service has engaged in similar kinds of arrangements in the past, including their use of postage due agreements and international cooperative mail agreements. A clear Congressional declaration on this issue -- via H.R. 22 -- would simply allow a proven model to be moved into a new venue of postal operations.

While a negotiated service agreement might include a volume-based price discount component, so, too, would it contain a commitment for a specific level of volume. Additional operational conditions that could well be part of such an agreement are commitments to consolidate mail, tender it at specific times and in specific ways (e.g., uniform preparation methods, enhanced levels of electronic communication on load content, etc.). Such negotiated service agreements would also be for a limited term and be subject to mutual performance reevaluation as renewals came due.

Some have inaccurately contended that NSAs for "noncompetitive" postal products are unfair. R.R. Donnelley & Sons Company rejects this view as incorrect because NSAs require a mutual exchange of enhanced value between the USPS and the partnering mailer. Such agreements are anything but unfair because of the reciprocal nature of the commitments and can, in fact, operate

to both grow advertising mail volumes and improve overall postal system efficiency. As noted above, NSAs can, as a result, assist the USPS in continuing to meet the universal service mandate.

Similarly, it is obvious to us what a negotiated service agreement is not. It is not a mere volume-based discount that discriminates between postal system users. What NSAs offer is the chance to provide nondiscriminatory opportunities for the Postal Service to expand the value it derives from its ~~worksharing partnership with the private sector~~ by taking the partnering concept to a higher value plane.

Simply put, there are multiple benefits potentially available to a NSA-led strategy of growing advertising mail for the USPS. First, and most obvious, is the ability of NSAs to help maintain the system volumes necessary to continue the universal service mandate in the long-run.

Second, the operational conditions of an NSA offer the USPS the opportunity to keep its costs competitive by providing access to the private sector's best worksharing capabilities through an exchange which requires enhanced and reciprocal performance commitments.

Third, we believe portions of the original version of H.R. 22 can be married with some of the additional criteria set out in the revision to assure that NSAs operate in a manner that is fair and which maximizes postal system efficiency, including the revision's new requirement that shortfalls in contribution to attributable and institutional costs be made up in successive years.

Finally, the reality that both parties in an NSA will be held fully accountable for the reciprocal commitments contained in the agreement will bring normal market forces to bear in assuring that NSAs function as intended and operate in a nondiscriminatory manner.

Conclusion

In sum, we note with pride that Benjamin Franklin, our nation's first Postmaster General, was also a printer. He established the historic link between our industry and the U.S. Postal Service. We believe that capitalizing on the innate spirit of enterprise for which Ben Franklin was known will enable both the modern mailing industry and the U.S. Postal Service to continue to serve all of America's citizens for years to come.

We thank you for your continued leadership on postal issues and look forward to working with you in successfully moving meaningful reform through Congress.

Sincerely,



Kevin C. Richardson
Vice President
Government Relations